11.20

Today close will keep switching over some pos to highs sharpe names.

Open:

Open down -14k. Almost costing entire last week’s pnl. Not good to add now.

Rebounded briefly to -8k and dropped to -25k.

Big vol here. Keep positioning light.

Last fri’s purchase are mostly losing money.

Stay put here for this period.

Huge swing in pnl. 9:37 was down -25, at the end was up 23k.

It’s the post panic rally that is the most aggressive.

Highest pnl occurred at 15:00 which indicates it's a short squeeze.

11.21

Ytd pm was up too much, high @ 1500, today pm will be under pressure.

See trend pnl to see whether its real strength or rebound play.

Moutai opened low again for third day in a row. Lots of short term traders trading at the open.

Handling pnl with composure is important especially when ptf breaks new highs.

Think carefully about your strategy when ptf takes a downturn.

**11.22**

Markets have been rallying hard for the past 2 days and I have reaped all of the benefits with mtm.

Nothing was traded, although the Monday panic presented an attractive opportunity.

This week, it has been established that you should trade **insignificant amount on each trade.** (like 0.25% of ptf in delta)

Trading points.

1. The day following index crash at open (morning panic after crash)
2. Trade wtd low (weekly reverting to mean)
3. Trade end of day low. (cc negative autocorr)
4. Trade noon crash following crash (pmcl negative autocorr)
5. Trade only when the current position is profitable
6. Trading insignificant amount on each trade so that probability edge kicks in instead of emotions or fear. Any emotions associated with putting on a trade are undesirable.

At this point, it is apparent that you cannot add more position. Position reduction is also not allowed due to it is only examined at month end of monthly loss.

Cost saving in the long run is the number one big issue to maintain profitability, that means every trade needs to be bang on and can be explained with solid rationale.

Position addition should be slow and steady. You shouldn’t go hugely in and out. What happened in Aug was that you put on 50+ futs and sold them when trend pnl was negative and fut still got sold off after market.

You should only add pos when your current position is profitable. If it doesn’t turn profitable, don’t touch it, and cut it after 1 month.

Fut is it the same thing. When you have negative pnl on the fut, it is more likely you are in a downtrend or adjustment phase. Wait it out.

**Long run situation:**

1. Delta sizes should gradually balloon, getting bigger in bull markets as more and more position is added. In bear markets, as more month end losses occur, positions will be cut.
2. Positions losing money are cut if they are losing money. There are no unprofitable stocks in the portfolio in the long run.
3. Ptf will be filled with high ytd sharpe stocks
4. Ptf will be filled with the best stock in each sector

**Transaction cost:**

1. Buys: at specific points outlined above
2. Sells: as a result of periodic (bi-monthly or monthly) appraisal. No sells just because it closed at a high, as it wastes transaction cost and the trade is based on no theoretical grounds.
3. For fut, natural monthly expiration means that if you lose money on month end, the loss is contained and going forward you should put on less position than the previous month.

**Misc:**

Take note of your highest position sizes during the run-up. During retreat, the max position is as much as your position going up. 8 lots have been put in place for futs. If it takes a turn down, you want to make sure you don't exceed this amount. Never have more position on the way down than up, your losses won’t make up for your gains.

Make sure every trade can be explained solidly by past experience or rationale or statistics or research. Previously, a lot of sells were done at closing highs which didn’t make sense. Adopting a longer term view means that you don’t trade randomly.

Your advantages vs. day traders:

1. Less transaction cost which can really add up in the long run (costs is 10% of my ytd pnl, mostly in the earlier stages)
2. Position sizing is consistent with directions of the market, whereas it is hard for day traders to decide how much position to put on
3. Delta swing is small, whereas day traders have huge swing in delta, causing discomfort and a lot of work.
4. Work is mostly done selecting high sharpe stocks and industry leaders. Day traders put a lot of time in unknown shitty stocks, in the long run it is not a good use of time.
5. Monthly cut ensures safety in bear markets, whereas the day trader will trade same sizes and lose more in bear markets and don’t gain it in bull markets.

Market open:

Greed open, then market sold off.

Not buying anything today. Monday was the

Noon:

Market choppy with low sharpe. Not a position to add.

Need to see which stocks are able to withstand the turbulence and break new high and which ones will have a month on month loss.

Trend pnl is waning, afternoon owing about 35k pnl.

No add no reduce here.

If month end Moutai is down, cut to about half pos.

Evening:

Market crashed into the close today.

Tomrw PM should be tradable.

**11.23**

Ytd closed at lows.

Strongest rebounders: haikang, longji, changdian.

Weak rebounders: moutai.

Weakness and inability of investors:

1. Not understanding the effect of media exposure on a stock. Overexposure is never a good thing in China. Moutai due to its high price has become a target for short term traders. Stay away from these stocks. Don’t trade anything that appears on the news.
2. Incapability to discern the strength of a stock by looking at the strength of its rebound and the volume.
3. Fantasizing about future strength. (Ex: saying achieving a new high is possible in the future)
4. Adding when losing on a position.
5. Putting on too much position when markets are going down. Position sizing should be decided as a function of market volatility and portfolio profitability, not how much it has dropped.
6. 急跌抄底 when position is under water. Increasing position on moves down. Averaging down cost. These are all weaknesses of retail investors. (should not add when position is under water)

So far this week’s trend pnl is -3k, owed pnl is 28k. Still not the time to add.

Trend is weaker than last week for sure.

However, fut has +16k trend pnl, 8k owed pnl, which makes it stronger than the stock ptf.

Some tips:

1. Stay away from stocks with high turnover 换手率. Sign of short term interest is not good.
2. Stay away from stocks in the news
3. Add or cut based on monthly realized sharpe( need to add this in HistChina, added)

Trend pnl is negative, which shows bearishness.

Most names are at wtd lows. Any chases this week would have been a loss.

Quite a big move this morning. Stock ptf -2%. Futs steady.

Lots of liquidations everywhere.

Put a hold on positioning. Wait until end of month to see month pnl to see if any cut necessary.

Only futs are steady.

Markets are getting very volatile. Stock position moved 2.7% against me. If it continues to be volatile, you need to cut to 1/6 of current position to keep daily move about 0.5%.

Contain ptf vol when stocks are becoming more volatile, cut pos.

Stocks losing sharpe needs to be cut in half:

**Month end cuts: (11-23 to 11-30)**

华大基因

茅台 (cut to half 150k) (head, volatile, too much negative publicity) (-150k)

恒瑞医药 (cut to 60k) (-70k)

海康威视： cut to 50k (-50 k)

隆基股份 (cut to 50k) (-50k)

爱尔眼科 （cut all -30k，low sharpe）

大族激光 (-50k)

伊利股份 ( -40k)

Keep:

大族激光

伊利股份

寒锐钴业

韦尔股份

工银

长电

中兴

平安 （40k）

Stocks that contribute a lot of volatility without returns:

Today it’s a 2 standard deviation event, but even under these circumstances want to control the max loss downwards.

This is a 1.5% loss of the ptf. Cut delta from 50% to 30%.

Positions are highly correlated. Too much vol and correl-vol.

Cut these highly correlated positions and diversify a bit.

**After close:**

Index closed at panicky lows. Ptf down the same as index about -2%.

As index gets more volatile near the top, cut position as outlined above as ptf risk is too high.

Wait until the first rebound is over.

Monthly losers need to be reduced in half. This will be the first end of month adjustment.

**Evening:**

1. Buying and selling needs to be internally consistent.
2. If selling is based on mtd pnl < 0 , buying should be focused on stocks with mtd pnl >0 to be internally consistent.
3. With mtd pnl > 0, buy at wtd lows.
4. Sharpe > 2.8. (or sharpe > ptf sharpe)
5. Even during panic, add slowly. When short dated traders cut position and that is the true lows. Think about Aug, position was added too fast and the adjustment lasted for 2 weeks, directly pushing the loss beyond 6% and that resulted in a liquidation.
6. You should never have a position such that if it doesn’t go your way it will cause you unacceptable damage -> casino doesn't play a consequential game. So add slowly and leisurely.
7. No sell method: add at all tradable spots, trade if mtd pnl is positive (has a pnl cushion). If negative, stop trading (not cut, just hold). Negative months are capped with minimum positions. Positive months see bigger positions. Let natural expiration take care of the positions.
8. No sell method for stocks: add at all tradable spots, trade if mtd pnl is positive. If negative, stop trading. Cut positions at month end to 1. Reduce ptf vol 2. Mtd negative pnl

Today added 170k delta for stocks and 80k for futures, 250k, which is 5% addition of delta on whole ptf. (7% addition on stocks and 3% on IB). The addition on stocks is a bit quick.

Tomorrow don’t add. Let it liquidate fully first without giving it a chance to cause damage on a bigger delta.

**Position reduction reasons**

1. Stock sharpe low
2. Stock mtd pnl < 0
3. Ptf volatility out of control (as a result of the market vol picking up) (reduction of high vol stocks)

Towards month end:

Staggered addition. Small and spread out. 1 day in between each round of buying.

Stocks: wait until next tues.

Futs:

Expires next wed. Start trading next fut.

If market rebounds a little bit, that means people have not given up, which means it’s not a buying point. Especially for stocks where investors buy at the close, and sell the next day.

Short term traders they need to lose money for a real opportunity to exist. Wait until they give up. When you are trading in the same model as them (day model),

When your short term traders don’t dare to add anymore or have used up their bullets, that’s the ideal place to add. For the month model, accumulation is staggered, so it doesn’t go up too quickly and it can keep going on

Instead of looking for 1 rebound, it is more like gradual accumulation vs. month end dissemination. This is the month model.

The day model is just buying to sell the next day (most short dated traders use this). Month model means buying during the month and sell at month end. (less monitoring, more clear trend at month level).

Open once, close once. Max accumulation two times a day.